

# **AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE CITY OF TSHWANE METROPOLITAN MUNICIPALITY**

## **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying consolidated financial statements of the City of Tshwane Metropolitan Municipality, which comprise the consolidated and separate statement of financial position as at 30 June 2010, the consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to ....

### **Accounting officer's responsibility for the consolidated financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

7. In my opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of the City of Tshwane Metropolitan Municipality as at 30 June 2010 and its consolidated and separate financial performance and its cash flows for the year then ended in accordance with GRAP and in the manner required by the MFMA.

### **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Restatement of corresponding figures**

9. As disclosed in note 46 to the financial statements, material prior period restatements were made in the statement of financial position and financial performance as a result of the various errors as indicated in note 46 to the financial statements.

#### **Unauthorised expenditure**

10. As disclosed in note 47 to the financial statements, unauthorised expenditure of R841,9 million was incurred due to the overspending of the budget.

#### **Irregular expenditure**

11. As disclosed in note 49 to the financial statements, irregular expenditure of R167,1 million was incurred in the current year, of which R165,4 million relates to non-compliance with regulation 36(1) of the supply chain management regulations.

#### **Material losses**

12. As disclosed in note 59 to the financial statements, distribution losses on water to the amount of R250,2 million were incurred as a result of the management of unaccounted-for water (UAW). The UAW amounts to 70 694 257kl or 26,6% for the 2009-10 financial year.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, Municipal Regulations (Regulations – GNR/GN), the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), and financial management (internal control).

#### **Predetermined objectives**

14. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

#### **Non-compliance with regulatory and reporting requirements**

##### **Municipal Systems Act, 2000 (Act No. 32 of 2000)**

### **Usefulness of reported performance information**

15. The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved annual integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable and time bound?

The following audit findings relate to the above criteria:

### **Incomplete reporting on all pre-determined objectives, indicators and targets**

16. For the objectives selected, the actual achievements of 31% of all planned indicators and targets specified in the performance against the city scorecard, as per the integrated development plan for the year under review, were not reported in the annual performance report submitted for audit purposes.

### **Reliability of information**

17. The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Have the amounts, numbers and other data relating to reported actual performance been recorded and reported appropriately?
- Completeness: Have all actual results and events that should have been recorded been included in the reported performance information?

The following audit findings relate to the above criteria:

### **Reported indicators not reliable or not valid, accurate and complete as no/inadequate supporting source information was provided**

18. For the following reported targets that were material by nature, the validity, accuracy and completeness of the reported targets could not be established as sufficient appropriate audit evidence and/or relevant source documentation could not be provided for audit purposes:

- Maintain or increase baseline of 97,1% of citizens who have access to basic or higher level of water = 674 967 households in line with 09-10 budget (6857 by Water & Sanitation)

- Maintain or increase a baseline of 670 161 households that have access to basic or higher level of sanitation (97,6%) in line with the 2009-10 budget (2 446 by Water & Sanitation)
- Kilometres of road as a proportion of square km of proclaimed area in the City of Tshwane (14,363km)
- Kilometres of backlog in storm water drainage systems eradicated (45,78km)
- Kilometres of new storm water drainage system provided (10,434km)
- Tshwane crime levels benchmarked against Gauteng crime levels per type of crime – to be 1% lower in Tshwane than in Gauteng

### **Compliance with laws and regulations**

#### **Municipal Finance Management Act, 2003 (Act No. 56 of 2003)**

##### **Payments were not made within the parameters set by applicable legislation**

19. Contrary to the requirements of section 65(2)(e) and section 99(2)(b) of the MFMA, the municipality and its entities (namely Housing Company Tshwane and Sandspruit Works Association) failed to make certain payments within 30 days from receipt of an invoice or within such period as prescribed for certain categories of expenditure.

##### **The municipal entities accounting officers did not meet their statutory responsibility**

20. Contrary to the requirements of section 95(c)(i) of the MFMA, all the municipal entities' (active and dormant) accounting officers did not take every reasonable step to ensure that the entities have and maintain effective, efficient and transparent systems of financial and risk management and internal control.
21. Contrary to the requirements of section 112 of the MFMA, Sandspruit Works Association and Civirelo Water's supply chain management policy did not include all items required by chapter 2 of the Supply Chain Management Regulations (*Government Gazette 27636*) for the full year. The policy, which included all required items, was approved subsequent to year-end.
22. Contrary to the requirements of section 165(2), no internal audit work was conducted on the dormant municipal entities and Civirelo Water.

##### **Expenditure incurred was in vain or could have been avoided, resulting in fruitless and wasteful expenditure**

23. Expenditure incurred by City of Tshwane Metropolitan Municipality, Civirelo Water, Housing Company Tshwane and Sandspruit Works Association in respect of interest and penalties levied due to late payments, was in vain and could have been avoided had reasonable care been exercised, thus resulting in "fruitless and wasteful expenditure" as defined in section 1 of the MFMA.

##### **Expenditure incurred in contravention of or not in accordance with the applicable legislation resulting in irregular expenditure**

24. Certain expenditure of City of Tshwane Metropolitan Municipality, Civirelo Water and Sandspruit Works Association was not incurred in accordance with the requirements of the MFMA and resulted in irregular expenditure as defined in section 1 of the MFMA.

## **Municipal Systems Act, 2000 (Act No. 32 of 2000)**

### **Legislative requirements not adhered to**

25. Not all employees declared their interest in terms of section 5A (1) and 5A (2) of the code of conduct for municipal staff members, as promulgated by schedule 2 of the MSA.

## **Supply Chain Management Regulations**

### **Supply chain management requirements not adhered to**

26. Contrary to regulation 44 of the supply chain management regulations, awards were made to persons who are in the service of the state.
27. Certain deviations from the supply chain management process were not in accordance with, inter alia, supply chain management regulation 36(1).

## **INTERNAL CONTROL**

28. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, the Municipal Regulations and MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
29. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

The municipality did not exercise sufficient monitoring and supervision over the compliance with laws and regulations in respect of supply chain management legislative requirements.

- **Financial and performance management**

Procurement of goods and services was in some instances not in accordance with supply chain management regulations, i.e. tender processes were not adhered to. Furthermore, record keeping pertaining to the performance information was not adequate, resulting in information not always being readily available for audit. The performance information in the annual report was not adequately reviewed for completeness and accuracy prior to submission for audit.

- **Governance**

Adequate actions were not taken in all instances to address risk relating to the achievement of complete and accurate financial and performance management.

## **OTHER REPORTS**

### **Investigations**

30. In terms of the Proclamation No. R. 62 of 31 October 2010, the President of South Africa assigned the Special Investigating Unit to investigate various issues relating to the state of affairs at the City of Tshwane Metropolitan Municipality as stated in the proclamation.
31. Sixty-three cases were investigated by the forensic audit section of internal audit from the 2008-09 financial year. Of these, 44 cases were finalised. The nature of the cases covered a wide spectrum of activities, e.g. bribery, theft, financial corruption, RDP houses misallocations, tender irregularities and various other issues. These fraudulent activities covered various departments of the City of Tshwane Metropolitan Municipality and 19 cases are still pending as investigations are still in progress.

Pretoria

15 December 2010



AUDITOR - G E N E R A L  
S O U T H   A F R I C A

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*Auditor-General*